

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

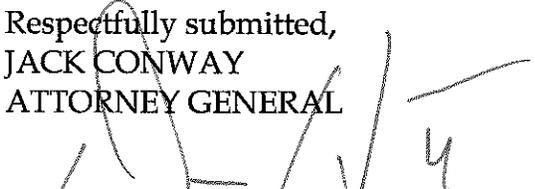
In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC)
COMPANY FOR AN ADJUSTMENT OF ITS)
ELECTRIC AND GAS RATES, A CERTIFICATE) CASE No.
OF PUBLIC CONVENIENCE AND NECESSITY,) 2012-00222
APPROVAL OF OWNERSHIP OF GAS SERVICE LINES)
AND RISERS, AND A GAS LINE SURCHARGE)

ATTORNEY GENERAL'S RESPONSES TO THE COMMISSION'S REQUESTS FOR
INFORMATION

Comes now the intervenor, the Attorney General of the Commonwealth of
Kentucky, by and through his Office of Rate Intervention, and submits his responses to
the Commission's Requests for Information.

Respectfully submitted,
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Notice of Electronic Filing, Filing, and Certificate of Service

With regard to the foregoing pleading, undersigned counsel provides the following certification and notice: Pursuant to ordering paragraph 3 of the Commission's June 22, 2012 Order, the Attorney General files the original and one copy in paper medium and one copy in electronic medium. Per ordering paragraph 10 of the June 22, 2012 Order, undersigned counsel certifies that: (a) the electronic version is a true and accurate copy of the material filed in paper medium; (b) the electronic version has been transmitted to the Commission; and (c) there are currently no parties that the Commission has excused from participation by electronic means in this proceeding.

With regard to the electronic filing, in conformity with Ordering paragraph 3 of the June 22, 2012 Order, the Attorney General has submitted his electronic copies of the information by uploading the material to the PSC's Web Application Portal at <https://psc.ky.gov/Security/account/login.aspx> . With regard to the original and paper copy, the material will be filed at the Commission's offices no later than the second business day following the electronic filing (consistent with the instruction contained in ordering paragraph 13 of the June 22, 2012 Order).

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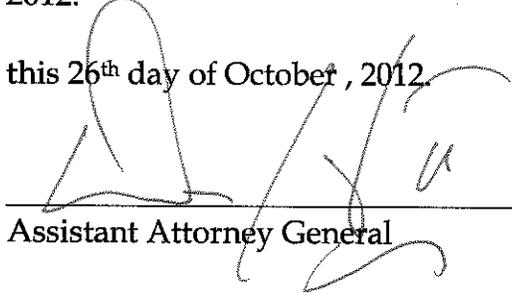
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The electronic filing took place on October 26th, 2012 with the filing of the documents in paper medium at the Kentucky Public Service Commission scheduled for October 29, 2012.

this 26th day of October, 2012.



Assistant Attorney General

Application of Louisville Gas & Electric Company for an
Adjustment of Its Electric and Gas Rates, a Certificate of Public Convenience and Necessity, Approval of
Ownership of Gas
Service Lines and Risers, and a Gas Line Surcharge
Case No. 2012-00222
Attorney General's Responses to Data Requests of
Kentucky Public Service Commission Staff

WITNESS RESPONSIBLE:

Glenn Watkins

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QUESTION No. 1:

Refer to the Direct Testimony of Glenn A. Watkins ("Watkins Testimony"), Exhibit GAW-2. The first 10 generating units listed are categorized as base load while the following eight units are categorized as intermediate load. Explain how the cut-off point between base load and intermediate load was determined.

RESPONSE:

Coal fired and minimum capacity factor of 60% are Mr. Watkins' criteria for base load units.

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QUESTION No. 2:

Refer to Exhibit GAW-5. Provide an electronic copy in spreadsheet format of the cost of service study that supports this exhibit with the formulas intact and unprotected and with all columns and rows accessible.

RESPONSE:

Please see OAG response to LG&E Question Number 2.

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QUESTION No. 3:

Refer to page 35 of the Watkins Testimony. Explain the basis for the proposed 3.45 percent increase to the PS-Primary class, i.e., why 50 percent of the system average increase is reasonable.

RESPONSE:

Please refer to Mr. Watkins' direct testimony, page 35, lines 24-28. Mr. Watkins' recommendation for the PS-Primary class is to share in some increase (half the system average) is subjective and is based on the concepts of gradualism, equity, and fairness to all ratepayers.

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QUESTION No. 4:

Provide the impact on residential bills of increasing the PS-Primary class revenue increase allocation and reducing the residential class revenue increase as proposed.

RESPONSE:

Mr. Watkins has not calculated the dollar impact on typical residential bills at the Company's proposed, or any other, overall revenue requirement.

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WITNESS RESPONSIBLE:

Dr. J. Randall Woolridge

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QUESTION No. 5:

Refer to the Direct Testimony of Dr. J. Randall Woolridge ("Woolridge Testimony"), pages 14 and 15 and Exhibit JRW-4.

- a. Provide a copy of the most recent published company analysis from Value Line for each of the companies in the electric and gas proxy groups.
- b. Show how LG&E's regulated revenues from its gas operations compare, in percentage terms, to each of the companies in the gas proxy group on page 2 of Exhibit JRW-4.
- c. Explain whether the gas revenue percentages in column 3 of Panel B on page 2 of Exhibit JRW-4 are only for regulated gas-distribution operations. If not, provide a breakout of the regulated revenues between distribution activities and all other regulated operations activities.
- d. Explain why Northwest Natural Gas Company and WGL Holdings, Inc., both with only 44 percent of revenues from gas operations, are appropriate for use in the gas proxy group.

RESPONSE:

- a. The requested documents are provided in the attached zipped file 'Gas V-Lines - September 7, 2012.'
- b. For the twelve months ending March 31, 2012, LG&E reported gas sales of \$259,067,927 and electric sales of \$908,373,506. Hence, regulated gas sales represent 22% of revenues and regulated electric sales represent 88% of revenues.
- c. The gas revenue percentages in column 3 of Panel B on page 2 of Exhibit JRW-4 are only for regulated gas-distribution operations.
- d. Dr. Woolridge believes that a proxy group has to be large enough to minimize measurement error in estimated an equity cost rate. To achieve a large enough proxy group, Dr. Woolridge has elected to include Northwest Natural Gas Company and WGL Holdings, Inc. despite the fact that both only have 44 percent of revenues from gas operations. These companies are still viewed as regulated gas distribution utilities, as indicated industry classification by *Value*

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Line and other investment information sources.

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QUESTION No. 6:

Several of the electric companies in the proxy group shown in Exhibit JRW-10 have negative growth rates. Explain why it is valid to have these companies included in the analysis.

RESPONSE:

The projected EPS, DPS, and BVPS growth rates for the proxy companies are predominantly positive. However, negative growth is clearly a possibility. The projected growth rates represent a distribution of projected growth rates for the proxy companies, and negative growth is a possibility for some companies. A review of the 5- and 10- year historic growth rates are provided on page 3 of Exhibit JRW-10. About 20% of the historic figures are negative, which documents that negative growth occurs. To eliminate the negative projected growth rates would lead to asymmetric elimination of low and not high growth rates, and therefore would lead to an overstatement of expected growth.

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QUESTION No. 7:

Explain why combination utilities were not used for the proxy group as opposed to calculating separate electric and gas ROE estimates.

RESPONSE:

Since electric and gas utilities have different risk characteristics, Dr. Woolridge believes that predominantly electric utilities should be used to set electric rates and predominantly gas utilities should be used to set gas rates. That being said, 21 of the 35 companies in the Electric Proxy Group have both electric and gas operations.

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Dr. J. Randall Woolridge

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QUESTION No. 8:

Refer to the Woolridge Testimony at page 35 and Exhibit JRW-10, pages 6 and 7. Explain why using internal growth and return calculations, which are derived in part through rates determined by ROEs awarded in other jurisdictions, as a proxy for dividend growth does not introduce a certain amount of circularity into the calculation.

RESPONSE:

Internal growth is a classic approach to measuring expected growth. As indicated in the testimony, the retention of earnings, and the rate of return earned on those earnings, is very direct measure important indicator of expected growth. For utilities, there is a possibility of circularity due to the fact that rates determined by ROEs awarded in other jurisdictions are used as a proxy for dividend growth. However, I have mitigated this effect by using many alternative indicators of growth – historic and projected growth rates in DPS, EPS, and BVPS as well as analysts' projected long-term EPS growth rates – in addition to internal growth.